BILL # SB 1246

TITLE: property tax valuation; telecommunications companies

SPONSOR: Martin

STATUS: As Amended by Senate FIN

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

This bill changes the valuation of telecommunications properties by: (1) requiring the Department of Revenue (DOR) to make adjustments for economic and functional obsolescence, (2) computing depreciation on a straight line basis instead of based on DOR's current valuation tables, and (3) expanding the definition of "historical cost" to include the original cost reported by an inclusive list of records maintained by a company in the regular course of business, including electronic, internal and property tax records, as well as written documents.

While SB 1246 becomes effective on the general effective date, DOR does not expect the bill to be implemented until tax year 2007, or for budgetary purposes, FY 2008.

Estimated Impact

Based on estimates provided by the telecommunications industry in Arizona, the bill would have a General Fund cost of $9.7 million beginning in FY 2008. The bill will reduce statewide net assessed valuation (NAV), which will increase the state's K-12 education formula cost. That impact, however, could be offset by reducing the cost of automatic school tax rate reductions that are designed to offset higher assessed value. There will be less of a tax rate reduction since the bill will lower the growth in assessed value. The net General Fund cost after accounting for the school tax rate reductions would be an estimated $1.1 million beginning in FY 2008.

The cost estimates above are based on the expected amount of full cash value that would be foregone under SB 1246, as determined by industry representatives. DOR's high-end estimate of the expected full cash value loss under this bill is roughly comparable to the figure provided by the industry. The JLBC Staff does not have an independent means of determining the valuation of these particular properties.

Analysis

Compared to current law, industry representatives estimate that SB 1246 will reduce the full cash value of telecommunications property by about $(1) billion beginning in tax year 2007. Since such property is assessed at 25% of full cash value, the corresponding NAV reduction would be $(250) million. By comparison, DOR estimates the tax year 2007 NAV loss under this bill to be between $(173) million and $(258) million.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays 35% of residential property taxes through the Department of Education's Homeowner's Rebate program. While SB 1246 will not affect residential property valuation, it will impact the school tax rate (QTR). By reducing NAV by $(250) million in tax year 2007, the bill will result in a direct increase of the state share of K-12 funding by $9.7 million in FY 2008. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reduction under SB 1246 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2008, the school tax rate is expected to be reduced by 11.2¢ under existing statutes. However, the lower NAV under SB 1246 would result in the tax rate reduction being 1.6¢ less than under current law. The higher QTR under the bill will reduce the net General Fund cost increase from $9.7 million to $1.1 million in FY 2008, which constitutes a TNT saving of $(8.6) million.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be small.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, the JLBC Staff estimates that the cost to the General Fund, beginning in FY 2008, will be about $9.7 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to $1.1 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

3/21/05